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FM AMEMBASSY SANTIAGO  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5033  
INFO RUEHQT/AMEMBASSY QUITO 2412  
RUCNMR/MERCOSUR COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEAIIA/CIA WASHDC  
RHEHNSC/NSC WASHDC

UNCLAS SANTIAGO 000533

STATE PLEASE PASS TO USTR KATE KALUTKIEWICZ  
STATE PLEASE PASS TO FEDERAL RESERVE TOM CONNORS  
TREASURY FOR BLINDQUIST  
COMMERCE FOR KMANN

SIPDIS

E.O. 12958: N/A  
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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS MAY 8 - JUNE 5

REFS: SANTIAGO 447 AND PREVIOUS

11. SUMMARY: Chile has officially entered a recession, as the Central Bank reported June 5 that economic activity fell for the sixth straight month. President Bachelet stated publicly that the news demonstrated the size of the challenge facing Chile. She clarified that it also demonstrated that the economy was "not getting worse," thanks to GOC policies. The unemployment rate increased for the fifth period in a row to 9.8%. Annual inflation fell again to 3%. Chile's Sovereign Wealth Funds remain profitable, worth a total \$20.43 billion. By June 5, copper prices reached a high for 2009, the Peso remained relatively stable against the Dollar, and the stock market gained ground. END SUMMARY.

#### Chile Officially In Recession

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12. The Central Bank reported June 5 that the monthly economic activity indicator (Imacec) contracted by 4.6% in April 2009 compared with the same month in 2008. It is the sixth month in a row to show a contraction, and therefore Chile is officially in a recession after two consecutive quarters of negative growth. The reduction in the Imacec was greater than expected and follows a fall of 0.7% in March 2009. The Imacec is regarded as a proxy for GDP growth in Chile, as it includes 90% of the same goods and services used to calculate GDP. Industrial activity was again the hardest hit, falling by 11.1% in April. Chile's Chamber of Construction reported that construction activity fell 7.9% in April, the worst drop since the Asian financial crisis.

13. Experts hoping March's Imacec marked the trough of Chile's economic slow-down were disappointed. President Bachelet stated publicly that the news did not leave the GOC indifferent and instead showed the magnitude of the challenge facing Chile. She noted that when compared with the first quarter of 2009, the new numbers demonstrated a relative stability in Chile's economy, which was "not getting worse" thanks to GOC policies. Bachelet cited continuing positive inflation numbers as an example (see para 5). Finance Minister Velasco told the press that April's Imacec was a negative development, but not necessarily unexpected. He added that this was a difficult moment for Chile.

#### Unemployment Rises For Fifth Period In A Row

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14. The National Statistics Institute (INE) reported May 28 that the national unemployment rate climbed to 9.8% during February - April 2009 (from 9.2% during January - March 2009). This is the fifth

straight increase in unemployment, which increased again in 13 of Chile's 15 regions, hit double digits in over half of Chile's 33 largest cities (reaching 17% in the city of Coronel), and rose to 10.1% in the greater Santiago area.

#### Inflation Continues Downward Trend

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15. On May 7, the INE reported the Consumer Price Index decreased in May by 0.3% compared with April. This marked a second month of negative inflation. The CPI's annualized growth rate fell to 3%. The CPI is currently at -1.1% since the start of 2009. The decrease in inflation was credited to falling prices in health services, cultural and recreational activities, as well as clothing and footwear. The positive news on inflation and the negative news on economic growth prompted speculation that the Central Bank's monetary policy committee will cut the key interest rate to 0.75% when it meets June 16 (this would be the sixth consecutive rate cut).

#### Chile's Sovereign Wealth Funds Doing Very Well

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16. On June 4, a Ministry of Finance official responsible for coordination of Chile's Sovereign Wealth Funds told the press that the Funds were still making profits and had not taken any significant losses. The Pension Reserve Fund was valued at approximately \$2.45 billion and the Economic and Social Stabilization Fund at \$17.98 billion. This accounts for \$1.75 billion withdrawn from the Funds to finance the GOC's fiscal stimulus packages. The Funds made a return of 7.6% in 2008, and so far are making a return of 9.5% in 2009.

#### Copper Prices Reach High For 2009

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17. On the London Metals Exchange, copper closed at approximately \$2.29/pound on June 5 (a 6.5% increase compared to the close of \$2.15/pound on May 8). This price marks copper's highest level in 2009. One expert credits the price increase solely to Chinese demand, noting the current price is unsustainable given weak demand around the rest of the globe.

#### Chilean Peso Remains Stable Against Dollar

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18. On June 5, the observed exchange rate closed at approximately 566 Chilean Pesos to 1 U.S. Dollar (a depreciation of about 0.5% from the close on May 8).

#### Stock Market Gains More Ground

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19. The IPSA closed at 3216.68 on June 5, up almost 11% on the close of May 8.  
SIMONS